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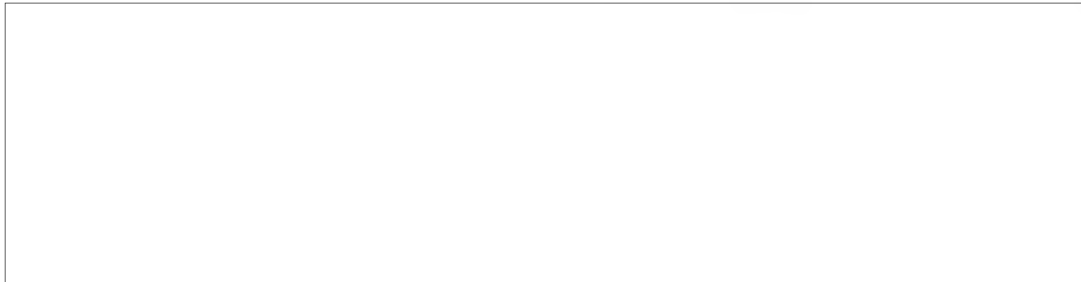
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E.O. 12356: DECL: OADR
 TAGS: PREL, VE, AR, UR
 SUBJECT: BACKGROUND ON ARGENTINA AND URUGUAY FOR
 PRESIDENT LUSINCHI'S VISIT

REF: CARACAS 2876

1. C - ENTIRE TEXT.

2. PER REQUEST IN REFTTEL, THERE FOLLOWS BACKGROUND MATERIAL ON ARGENTINA AND URUGUAY, DRAWN LARGELY FROM BRIEFING MATERIAL PREPARED FOR RECENT CONGRESSIONAL DELEGATIONS.

3. ARGENTINA:

POLITICAL SITUATION:

ARGENTINA RETURNED TO DEMOCRATIC RULE IN 1983 FOLLOWING SEVEN YEARS OF MILITARY-LED GOVERNMENTS. DURING THOSE SEVEN YEARS ARGENTINA WAS BUFFETED BY SEVERAL TRAUMATIC EVENTS INCLUDING THE "DIRTY WAR". THIS "WAR" AGAINST LEFT-WING SUBVERSIVES LEFT A LEGACY OF HUMAN RIGHTS ABUSES, INCLUDING OVER 9,000 "DISAPPEARED" PERSONS. ECONOMIC MISMANAGEMENT, COMBINED WITH A BUNGLED ADVENTURE IN THE FALKLANDS/MALVINAS ISLANDS WAR, LED THE MILITARY TO RELINQUISH POWER TO THE RADICAL CIVIC UNION PARTY OF RAUL ALFONSIN IN OPEN ELECTIONS IN NOVEMBER 1983.

TWO YEARS LATER, ALFONSIN'S PERSONAL POPULARITY REMAINS STRONG, WELL AHEAD OF HIS RADICAL PARTY. PUBLIC SUPPORT FOR ALFONSIN AND HIS POLICIES COMBINED WITH BITTER DIVISIONS WITHIN THE MAIN OPPOSITION PARTY, THE PERONISTS, LED TO A RADICAL PARTY VICTORY IN THE NOVEMBER 3 CONGRESSIONAL AND PROVINCIAL ASSEMBLY ELECTIONS. IN THE ELECTION, THE RADICAL MAJORITY IN THE CHAMBER OF DEPUTIES WAS STRENGTHENED BY ONE SEAT AND THE RADICALS ARE EXPECTED TO GAIN ONE SEAT ON THE PERONISTS, WHO ENJOY A PLURALITY IN THE SENATE, IN THE INDIRECT ELECTIONS IN LATE 1986. SINCE THE MILITARY IS STILL POLITICALLY DISCREDITED AND IS GRADUALLY BEING BROUGHT UNDER CIVILIAN

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CONTROL, IT IS UNLIKELY TO BE A SHORT-TERM THREAT TO THE STABILITY OF THE GOVERNMENT. THOUGH THE PROCESS OF CONSOLIDATING CIVILIAN RULE CONTINUES, OVERALL, ARGENTINE DEMOCRACY REMAINS STRONG.

THE MAIN LABOR COLLECTIVE, COMPRISING NEARLY ALL SIGNIFICANT UNIONS, IS THE GENERAL LABOR CONFEDERATION (CGT). THE CGT IS ALSO A DOMINANT FORCE WITHIN THE PERONIST PARTY. BY MID-SEPTEMBER LAST YEAR, SAUL UBALDINI HAD EMERGED AS THE SOLE SECRETARY GENERAL. HE IS UNDER CONSIDERABLE PRESSURE FROM LOCAL LABOR LEADERS AND HIS OWN MEMBERSHIP. ALTHOUGH, THE CGT HAS BEEN UNWILLING TO CONFRONT THE GOVERNMENT FULLY, PARTLY BECAUSE OF THE POPULARITY OF ALFONSIN AND THE ECONOMIC PLAN, THE CGT DID CALL ONE-DAY LARGELY SUCCESSFUL GENERAL STRIKES IN AUGUST 1984 AND JANUARY AND MARCH 1985.

THE ECONOMY:

ALFONSIN FOUND ECONOMIC CONDITIONS MUCH WORSE THAN EXPECTED WHEN HE TOOK OFFICE IN DECEMBER 1983. ASIDE FROM SOME MINOR EFFORTS TO INDUCE ECONOMIC GROWTH, HOWEVER, ALFONSIN CONCENTRATED ON POLITICAL AND HUMAN RIGHTS MATTERS AND ABSTAINED FROM ANY DECISIVE ACTIONS IN THE ECONOMIC SPHERE FOR THE FIRST 18 MONTHS OF HIS ADMINISTRATION. BY THE SPRING OF 1985 HIS POLICY TOWARD THE ECONOMY WAS IN SERIOUS TROUBLE. ARGENTINA'S INFLATION RATE WAS APPROACHING 30 PERCENT A MONTH AND THE COUNTRY WAS OUT OF COMPLIANCE WITH ITS IMF PROGRAM. ON JUNE 14, 1985, ALFONSIN ANNOUNCED A DRASTIC ECONOMIC ADJUSTMENT PLAN, THE PLAN AUSTRAL, WHICH WENT BEYOND IMF

REQUIREMENTS. WAGES AND PRICES WERE FROZEN FOR AN UNSPECIFIED TIME, A NEW CURRENCY, THE AUSTRAL, REPLACED THE PESO AND THE EMISSION OF CURRENCY UNSUPPORTED BY RESERVES WAS STOPPED. IN ADDITION, THE GOA PROMISED TO CUT THE FEDERAL DEFICIT TO 2.5 PERCENT OF GDP.

INITIAL RESULTS HAVE BEEN IMPRESSIVE WITH INFLATION FALLING TO AN AVERAGE OF 2 PERCENT PER MONTH. FURTHERMORE THE PUBLIC SECTOR DEFICIT HAS BEEN REDUCED BY 6 PERCENT OF GDP. ALTHOUGH THE AUSTRAL ECONOMIC PROGRAM CONTINUES TO ENJOY SURPRISING POPULAR SUPPORT, ADDING TO THE PRESIDENT'S LUSTER, THE DURATION OF ITS POPULAR SUPPORT AND GOVERNMENT RESISTANCE TO PRESSURES FOR AN EASING OF THE AUSTERE ECONOMIC PLAN ARE IN QUESTION DUE TO RISING UNEMPLOYMENT (CURRENTLY AT 7.4 PERCENT), DECLINING REAL WAGES (OVER -25 PERCENT IN 1985) AND LOW GROWTH RATES (-4.5 PERCENT FOR 1985). DESPITE THESE INITIAL SUCCESSES, DIFFICULT ECONOMIC AND POLITICAL PROBLEMS REMAIN WITH MORE FUNDAMENTAL STRUCTURAL REFORMS NEEDED. IN HIS BUDGET MESSAGE OF LATE JANUARY 1986, PRESIDENT ALFONSIN BEGAN TO ADDRESS SOME OF THESE PROBLEMS BUT SPECIFIC DETAILS ARE STILL SCANTY. HE DID, HOWEVER, SET A TARGET OF 4 PERCENT GROWTH FOR 1986.

ARGENTINA'S EXTERNAL DEBT TOTALLED 49.5 BILLION DOLLARS AT THE END OF 1985 AND DEBT SERVICE REQUIREMENTS IN 1985 AMOUNTED TO OVER 90 PERCENT OF EXPORT EARNINGS. WHILE ARGENTINA WAS ABLE TO NEGOTIATE A DEBT RESCHEDULING IN 1985, THE ISSUE REMAINS DIFFICULT. DESPITE ITS SERIOUS DEBT PROBLEM, ARGENTINA HAS MAINTAINED A MODERATE AND RESPONSIBLE POSITION ON THE EXTERNAL DEBT QUESTION AND HAS REFUSED TO JOIN THOSE WHO CALL FOR EITHER OUTRIGHT REPUDIATION OR ARTIFICIAL LIMITS ON DEBT PAYMENTS.

PRELIMINARY FIGURES INDICATE THAT ARGENTINE EXPORTS IN 1985 WERE 8.3 BILLION DOLLARS, AN INCREASE OF 2.5 PERCENT FROM 8.1 BILLION DOLLARS IN 1984. THE TRADE SURPLUS IN

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1985 REACHED A RECORD 4.4 BILLION DOLLARS, UP 26 PERCENT FROM THE PREVIOUS HIGH OF 3.5 BILLION DOLLARS IN 1984. THE OUTLOOK FOR 1986 IS FOR A REDUCED TRADE SURPLUS.

4. URUGUAY:

POLITICAL SITUATION:

THE INAUGURATION OF PRESIDENT JULIO SANGUINETTI ON MARCH 1, 1985 MARKED URUGUAY'S RETURN TO ITS TRADITIONAL SYSTEM OF DEMOCRATIC POLITICS AFTER TWELVE YEARS OF MILITARY RULE. SANGUINETTI INCLUDED OPPOSITION POLITICAL PARTY LEADERS IN A CONSULTATIVE, NATIONAL CONSENSUS PROCESS, WHICH ENABLED HIM TO LAUNCH HIS ADMINISTRATION WITH RELATIVE EASE AND THE USE OF CONSENSUS POLITICS HAS CHARACTERIZED HIS OPEN, CONFIDENT POLITICAL STYLE EVER SINCE.

SANGUINETTI CONTINUES TO ENJOY BROAD-BASED, POPULAR SUPPORT FOR HIS MODERATE, PRAGMATIC APPROACH TO CONSOLIDATING DEMOCRACY, BUT HE FACES SEVERAL SERIOUS PROBLEMS:

--HE DOES NOT HAVE A MAJORITY IN CONGRESS TO HELP ENACT HIS FREE MARKET-ORIENTED ECONOMIC PROGRAM;

--RADICAL LABOR LEADERSHIP, WHICH EVEN THE COMMUNIST PARTY CANNOT COMPLETELY CONTROL, CONTINUES TO CHALLENGE THE GOVERNMENT AND HINDER THE ECONOMY;

LOW COMMODITY PRICES THWART EXPORT-LED-GROWTH; AND
--PRESSURE TO PROSECUTE INDIVIDUALS RESPONSIBLE FOR HUMAN RIGHTS ABUSES HAS NOT ABATED AND CONTINUES TO UNNERVE THE MILITARY.

NOW THAT EVERYONE HAS RETURNED FROM SUMMER VACATIONS, SANGUINETTI HAS STEPPED UP HIS EFFORTS TO BETTER MANAGE THESE PROBLEMS BY NEGOTIATING A THREE YEAR NATIONAL ACCORD WITH THE BLANCO (NATIONAL) PARTY, THE LEFTIST COALITION BROAD FRONT AND THE SMALL, MORE CONSERVATIVE CIVIC UNION. SANGUINETTI SEEMS TO HAVE MET WITH SUCCESS AND MAY FORMALLY ANNOUNCE THE ACCORD AS EARLY AS MARCH 31. MOST EXPECT THE ACCORD TO BE A LIMITED DOCUMENT COVERING SOME ASPECTS OF ECONOMIC POLICY. IN ADDITION, IT APPEARS SANGUINETTI MAY HAVE REACHED A BROADER RANGE OF UNPUBLISHED UNDERSTANDINGS COVERING CABINET CHANGES, LABOR AND HUMAN RIGHTS POLICY WITH WILSON FERREIRA, THE CHARISMATIC, NATIONALISTIC LEADER OF THE BLANCO PARTY.

ECONOMIC SITUATION:

WHEN PRESIDENT SANGUINETTI TOOK OFFICE IN MARCH, 1985, HE FACED A MISERABLE ECONOMIC SITUATION. URUGUAY'S TOTAL INTERNAL AND EXTERNAL DEBT EQUALED THE COUNTRY'S 5 MILLION DOLLARS GDP. ECONOMIC GROWTH WAS UP FROM THE NADIR HIT IN 1982 BUT STILL NOT POSITIVE. INFLATION WAS RUNNING 100 PERCENT; UNEMPLOYMENT WAS AT ALMOST 15 PERCENT, AND REAL WAGES WERE DOWN OVER 20 PERCENT FROM THREE YEARS BEFORE. PRIMARY AMONG FACTORS LEADING TO THIS SITUATION WERE COST/PRICE DISTORTIONS WHICH AROSE FROM INAPPROPRIATE POLICIES, ESPECIALLY EXCHANGE RATE POLICIES FROM 1978 TO 1982, WORLDWIDE ECONOMIC RECESSION AND THE DETERIORATION OF MARKETS IN URUGUAY'S TWO MOST IMPORTANT TRADING PARTNERS, BRAZIL AND ARGENTINA.

PRESIDENT SANGUINETTI'S GOVERNMENT UNDER THE GUIDANCE OF FINANCE MINISTER ZERBINO IS WORKING HARD TO ADDRESS THE ECONOMIC PROBLEMS IT INHERITED. THE GOU ADJUSTMENT PROGRAM FOCUSES ON REACTIVATION OF THE ECONOMY TO IMPROVE

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STANDARDS OF LIVING FOR A FORMERLY MIDDLE CLASS COUNTRY THAT HAS SEEN ITS INCOME DROP FROM OVER 3,000 DOLLARS PER CAPITA IN 1980 TO 1,600 DOLLARS TODAY. SPECIFICALLY, THE ADMINISTRATION HAS SET OUT TO REDUCE INFLATION, STRENGTHEN URUGUAY'S EXTERNAL ACCOUNTS AND REESTABLISH DOMESTIC AND INTERNATIONAL CONFIDENCE. ON THIS BASIS THE GOVERNMENT HAS SUCCEEDED IN NEGOTIATING AN IMF PROGRAM, WHICH WAS APPROVED LAST SEPTEMBER, AND A RESTRUCTURING ARRANGEMENT WITH COMMERCIAL BANKS WHICH WAS COMPLETED IN DECEMBER. THE IMF HAS PRAISED THE GOU'S EFFORTS TO DATE AND CHARACTERIZED SOME OF ITS ACCOMPLISHMENTS IN 1985 AS REMARKABLE.

THE GOU IS EXPECTED TO BE ABLE TO COMPLY WITH ITS IMF PROGRAM THROUGH 1986. THE SDR 122 MILLION PROGRAM EMPHASIZES IMPROVEMENT OF PUBLIC SECTOR FINANCES THROUGH IMPROVED TAX ADMINISTRATION AND REDUCED GOVERNMENT EXPENDITURES. WAGE POLICY WILL CONTINUE TO BE KEY TO THE GOU'S COMPLIANCE, SINCE PUBLIC SECTOR WAGES AND SOCIAL SECURITY PAYMENTS ACCOUNT FOR 70 PERCENT OF THE GOVERNMENT'S BUDGET. (THE WORKER-PENSIONER RATIO FOR URUGUAY'S AGING SOCIETY IS 1:1.) SUBSTANTIAL REDUCTION OF THE DEFICITS OF THE CENTRAL BANK AND THE STATE ENTERPRISES WILL ALSO BE REQUIRED.

URUGUAY'S PROSPECTS FOR SERVICING ITS SIZEABLE DEBT HAVE IMPROVED NOT ONLY DUE TO THE GOVERNMENT'S RESPONSIBLE ATTITUDES, BUT ALSO OWING TO THE REDUCTION IN INTEREST RATES WHICH HAS ACCOMPANIED OIL PRICE DECLINES. ACCORDING TO THE IMF, INTEREST PAYMENTS ABSORB ONE-THIRD OF URUGUAY'S EXPORT REVENUES. URUGUAY'S MAIN PROBLEM FOR NOW IS FINDING EXPANDED MARKETS FOR ITS EXPORTS, WHICH ARE LARGELY IMPORT-SENSITIVE COMMODITIES LIKE MEAT AND TEXTILES. WHITEHEAD

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